



DATE: June 16, 2015

CATEGORY: Public Hearing

DEPT.: Finance and Administrative Services

TITLE: **Public Hearing on Proposed Wastewater and Trash/Recycling Rate Increases**

RECOMMENDATION

Convene a public hearing to accept and consider public comments on Fiscal Year 2015-16 proposed wastewater and trash/recycling rate increases.

BACKGROUND

In 1997, voters approved Proposition 218, amending the State Constitution to reinforce voter approval requirements for all new and increased taxes, as well as adding substantive and procedural requirements prior to imposition of property assessments and new or increased “property-related fees and charges.”

In a July 2006 California Supreme Court decision (*Bighorn*), the Court ruled that utility rates charged by governmental entities for water, sewer, and trash and recycling services are considered property-related fees and are subject to the procedural requirements of Proposition 218, Article XIII D, of the California State Constitution. Proposition 218 (as now interpreted) requires governmental agencies that charge for utility services to conduct a majority protest hearing prior to adopting any changes in utility rates at which time the governing body will consider public input on the proposed rates.

A notice must be mailed no later than 45 days prior to the public hearing, include the proposed rate adjustments, the calculation methodology, and describe the process for submitting a protest vote to the rate adjustments. If protest letters are received from a majority of the parties affected by the rate increases, the proposed increases are defeated and cannot be further considered without repeating the notice and hearing process.

The legislation provided for future rate increases within prescribed limits to be approved without holding a hearing each year for up to an additional four years. For

Fiscal Year 2015-16, the proposed water rate changes are within the pass-through and inflationary guidelines; therefore, no Proposition 218 hearing is required for water rate changes.

In compliance with Proposition 218, on or before May 1, 2015, 45 days prior to the June 16, 2015 public hearing of the City Council, approximately 16,000 notices were mailed to City of Mountain View utility customers. A copy of the notice is included as Attachment 1. Protests must be submitted in writing and may be submitted in person at the City Clerk's Office in City Hall, or at the Council meeting by the close of the public hearing on June 16, 2015. Written protests received prior to or at the public hearing will be opened at the public hearing and a final tally will be given to Council after the hearing is closed. As of June 11, 2015, five protests have been received.

ANALYSIS

Proposed utility rate increases were reviewed and discussed at the April 28, 2015 Narrative Budget Study Session, and at the June 9, 2015 public hearing. A summary discussion of Wastewater (sewer) and trash/recycling services is included as follows:

Wastewater

An overall 6.0 percent rate increase is proposed for Fiscal Year 2015-16, 4.0 percent to fund the proposed 6.7 percent increase in costs for the Palo Alto Regional Water Quality Control Plant (Treatment Plant) and City operating cost increases. As part of staff's recommendation to phase-in the costs attributable to major renovations at the Treatment Plant approved by Council last year, an additional 2.0 percent increase (the second of 10 years) is proposed.

The treatment plant began operations in 1972 and is in need of major renovations. An updated preliminary projection of the future costs, net of anticipated operating savings, necessary for the renovations has been provided and extend the funding payments out seven years, but the annual payments are more normalized. The update did not change staff's recommendation of increasing rates 2.0 percent per year for 10 years. A cumulative rate increase of 20.0 percent is estimated to still be needed to achieve 25 years of annual payments of between \$2.9 and \$3.3 million.

With the advance notice and planning, this allows for a gradual phase-in of the rate increases necessary to fund these long-term capital costs. Therefore, Fiscal Year 2015-16 is the second year of an additional 2.0 percent overall increase in rates to fund the major renovations for the Treatment Plant. It is recommended to gradually phase in the rates

to spread the impact of the costs associated with the renovations of the Treatment Plant improvements. The annual additional 2.0 percent increase is included for Fiscal Years 2016-17 through 2019-20 on the rate noticing.

Trash/Recycling

An overall average 5.0 percent rate increase is proposed for trash and recycling services in order to fund the increase for Recology (2.85 percent) and the SMaRT® Station (7.0 percent). However, during Fiscal Year 2012-13, staff began a Cost of Service Study (COS Study) to review the rate structure and potentially realign rates to reflect the true cost of collection and disposal. Due to the timing of the implementation of new services negotiated in the new agreement with Recology, the completion of the COS Study was placed on hold until a full year of new service levels could be completed.

The first full year of new service levels was completed as of June 30, 2014 and the COS Study has been updated to incorporate the results of the new service levels. Based on the results of the COS Study, but without consideration of the rate adjustment necessary for Fiscal Year 2015-16, rates for carts would need to increase by 27.5 percent (staff is recommending cart rates be phased with increases of 10.0 percent per year for three years), bin and compactor rates be reduced 3.5 percent, and debris box rates be reduced by 20.0 percent. In addition, staff performed further analysis on debris box rates and is recommending a restructuring of rates to a flat rate based on box size and not weight.

Incorporating the COS Study recommendations, for Fiscal Year 2015-16 a 14.0 percent rate increase is proposed for carts, a 1.5 percent increase is recommended for bins and compactors, and rate restructuring is recommended for debris boxes removing additional tonnage charges and reducing overall revenue for debris boxes 15.0 percent. For the phase-in of carts rates, a 10.0 percent for Fiscal Years 2016-17 and 2017-18 is included on the rate noticing.

These fees will be included in the resolution amending the City of Mountain View Master Fee Schedule to be adopted at the public hearing for adoption of the Fiscal Year 2015-16 Budgets, Appropriations Limit, and Fee Modifications scheduled after this public hearing on the June 16, 2015 agenda. If there is a majority protest, these fees will be removed from the resolution amending the Master Fee Schedule.

FISCAL IMPACT

The proposed rate increases are necessary to continue the operating and financial sustainability of the water, wastewater, and trash and recycling services provided.

ALTERNATIVES

Council may request modifications to the proposed wastewater and trash and recycling rate increases as presented.

PUBLIC NOTICING

Agenda posting and a notice of the public hearing was published in two newspapers of general circulation. In addition, notice of the rate increases was mailed to all customers.

Prepared by:

Helen Ansted
Principal Financial Analyst

Suzanne Niederhofer
Assistant Finance and Administrative
Services Director

Approved by:

Patty J. Kong
Finance and Administrative
Services Director

Daniel H. Rich
City Manager

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Attachment: 1. Notice of Public Hearing – Proposed Wastewater and Certain
Trash/Recycling Rates Effective July 1, 2015